

Reversing the Question. Does Happiness Affect Individual Economic Behavior?

Evidence from Surveys from the Netherlands and Germany

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Abstract

I examine the impact of happiness on economic behavior. I use self-reported happiness data from the DNB Household Survey from the Netherlands and the German Socio-Economic Panel. I consider changes in regional sunshine as an exogenous determinant of happiness. Both long-run and transitory increases in sunshine increase happiness. Instrumenting individual happiness with regional sunshine, I find that happy people save more, spend less, and that the marginal propensity to consume is lower for the happy people. Happy people appear to be more risk-averse in financial decisions and (accordingly) choose safer investments. Happy people spend more time before making decisions and have more control over expenditures. Happy people also expect a longer life and (accordingly) seem more concerned about the future than the present; they also seem to expect less inflation in the future. Secondary findings suggest that happy people are less likely to smoke and have less desire to move.

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